

Montgomery County, Maryland
Office of the County Executive
Office of Internal Audit



Internal Control Review of Fleet Asset Management Operations

Department of General Services

November 17, 2017

Highlights

Why MCIA Did this Assessment

The Department of General Services (DGS) was established by the Montgomery County Government (County) to consolidate functions that provide essential services in support of other County departments. Within the DGS, the Division of Fleet Management Services (Fleet) is responsible for a comprehensive fleet management program for County vehicles. Fleet Management operates five shops in four main facilities throughout the County.

In March 2017, the DGS requested that the Office of Internal Audit (MCIA) perform an internal control review to identify existing risks and opportunities for improvements to strengthen management of inventory operations at each of the four Fleet facilities. The focus was the ordering, receiving, and management of Fleet assets, as well as the processes and controls around the surplus and disposal, periodic inventory counts, and safeguarding of Fleet assets. The assessment was conducted by the accounting firm SC&H, under a contract with MCIA.

What MCIA Recommends

MCIA is making 23 recommendations to the DGS to strengthen its internal controls, reduce risk, and improve overall performance related to management of inventory operations.

November 2017

Assessment of the Department of General Services' Fleet Asset Management Operations

What MCIA Found

Based on information obtained throughout our review, it appears that there are opportunities for DGS to improve the management of the Fleet asset inventory operations across the four locations to meet the demands of maintaining the County's vehicle.

We identified several control deficiencies that could largely be categorized as the improper segregation of duties. These control deficiencies are related to:

- Lack of sufficient oversight over parts and tools orders
- Employees who have incompatible roles and responsibilities
- Lack of restricted access to parts inventories
- Improper employee accesses within the fleet management system

Further, we identified control deficiencies at one or more locations including: the lack of invoice pricing validation against contracts and quotes, unauthorized purchasing card use, the lack of periodic tool inventories, and insufficient safeguarding of Fleet parts inventories.

Finally, our testing noted that there is not a process in place to track the return of parts that were replaced that contained "cores" for which a deposit is refunded or credited upon the return of the core to the vendor.

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Objectives

This report summarizes an internal control review performed by SC&H Group, under contract with the Montgomery County (County) Office of Internal Audit (MCIA), of the Department of General Services' (DGS) Division of Fleet Management Services (Fleet). The review was focused on the ordering, receiving, and management of Fleet assets, as well as the processes and controls around the surplusing and disposal, periodic inventory counts, and safeguarding of Fleet assets. The assessment used fiscal year 2017 as the basis for testing.

Specifically, we were engaged by the County to perform the following objectives:

- Assess the existence and effectiveness of the internal control environment
- Identify existing risks and opportunities for improvements
- Strengthen management of inventory operations at each of the four locations

SC&H Group's proposed procedures were developed to meet the objectives stated above, and were reviewed and approved in advance by MCIA. The interviews, documentation review, and field work were conducted from March 2017 to July 2017.

Background

Department of General Services – Fleet Asset Management Operations

The Department of General Services (DGS) was established by the Montgomery County Government to consolidate functions that provide essential services in support of other County departments. This review was conducted based on information gathered from four DGS Fleet locations. The four locations were:

- Equipment Maintenance & Transit Operation Center (EMTOC) – 16700 Crabbs Branch Way: Heavy equipment, Transit (Ride On) buses, and miscellaneous equipment (leafers, generators, compressors, etc.)
- Brookville Maintenance Facility (BMF) – 8710 Brookville Road, Bldg. D – Transit (Ride On) Shop and miscellaneous equipment (leafers, generators, compressors, etc.)
- Nicholson Court Small Transit Shop (STS) – 4925 Nicholson Court – Ride-On Vehicles
- Automotive Equipment Section/Seven Locks Facility – 1283 Seven Locks Road, Bldg. F – Light Fleet

Note: The maintenance – including the parts inventory – of the light fleet vehicles at the Seven Locks facility is outsourced to a fleet maintenance contractor. As such, the processes related to the ordering, receiving, issuing, inventorying, and warehouse management of parts is not applicable for this location.

Parts Ordering

Parts and tools can be ordered through EMTOC, BMF, and STS. The Senior Supply Tech for each shop will run a recommendation report in Faster (the fleet management system for vehicles, equipment, and parts inventory) for parts, which is based on predefined minimum and maximum inventory levels, as well as criticality of the parts in maintaining vehicle operability, and the amount of time that it takes to receive an ordered part. The report populates Fleet asset items that should be ordered so that the County's vehicles and equipment stay in service. Using this report as the basis for parts orders, the Senior Supply Tech enters the order into Faster and places the orders with the corresponding vendors by phone or email.

While each of the Mechanics are responsible for maintaining their own set of hand tools needed to perform their work, other tools are provided by Fleet for shared use. Orders for these shared tools are initiated when a Mechanic informs the Crew Chief that they need a tool that is not in stock to perform a specific task. If the Crew Chief deems the request appropriate, he/she solicits approval from the Shop Superintendent. Like parts, tool orders are also entered through Faster unless Snap-On (the tool contractor) does not have the tool, in which case they may purchase the tool with a p-card. If the cost of the tool exceeds \$500, the approval of the Section Chief of Maintenance Operations is required.

Parts Receiving

At the EMTOC facility there is a Receiving department dedicated to receiving deliveries of parts and tools. When items are delivered, the drivers are directed to the Receiving Department. The receiving personnel and the driver validate the items delivered against the accompanying packing slip or bill of lading. The Receiving personnel also compares the purchase order to the packing slip and manually enters the items that were received into Faster. The Receiving Department then labels the part, assigns a shelf location, and places the parts in the appropriate location.

At BMF and STS there is no separate Receiving department for parts and tools. The Senior Supply Tech or Depot Coordinator will validate the items delivered against the accompanying packing slip or bill of lading, compare the purchase order to the packing slip and manually enter the items that were received into Faster. The Senior Supply Tech or Depot Coordinator also labels the part, assigns a shelf location, and places the part in the appropriate location.

Warehouse Management

As work is performed at each location, work orders are opened and maintained within Faster that define the work to be performed. For some work types (e.g. preventive maintenance), Faster is designed to pre-populate a list of parts needed to perform the work. For other types of work orders, the Mechanics populate the needed parts into the work order. The parts added to each work order are monitored by the Maintenance Superintendents and Crew Chiefs for appropriateness.

The Supply Techs fulfill the parts needed for each work order. They view the work orders through Faster, identify the parts needed, and pull the parts from their locations. The Supply Techs add the parts onto the work orders, and the Mechanics obtain the parts from the Supply Techs. If parts that were obtained are not used, the Mechanic will return the parts to the Supply Tech at the parts supply room, and the Supply Tech will remove the parts from the work order.

Inventory

On an annual basis, each facility performs a full physical inventory count. The entire Fleet department shuts down over one weekend at the end of June to perform the full count. On Friday evening, Faster is locked down and employees are no longer allowed to enter transactions. The count of the EMTOC facility is completed on Saturday, and the BMF, STS, and Seven Locks facilities are completed on Sunday.

Each of the locations have teams of employees comprised of a “recorder” and a “counter”, who are assigned to specific sections of the parts supply area. As indicated, the counter counts each part, by location, throughout his/her assigned section. The recorder writes down the quantity of parts counted by the counter. Both employees initial the pages containing the items counted and results. Additionally, Fleet Management selects random sections to be spot checked based on the usage frequency and the value of the items.

After the initial counts are performed, the completed, signed inventory sheets are given to Fleet Admin employees who enter the results into Faster. If there are initial count discrepancies that could indicate that the counters were at the wrong location, or counted the wrong part, the Admin employee asks the spot checker to recount the specified items. The Admin employees confirm the original count if it was shown to be accurate, or will revise the Faster entry with the quantity noted from the spot checker if the original count was inaccurate. Once all of the count results have been entered into Faster, the IT Supervisor runs a variance report that identifies all instances in which the quantity of a part counted did not agree to the on-hand inventory in Faster.

The Fleet department also performs cycle counts at each location on a bi-weekly basis. These are less formal than the annual full physical inventory counts. For the cycle counts, the on-duty supply personnel are assigned sections of parts inventory to count. The cycle count sheets are pre-populated with the Faster on-hand inventory quantities. The counters count each item within the assigned section and record their count results on the count sheets. The counter also initials each count sheet. If there is a discrepancy, the Senior Supply Tech will investigate and attempt to solve the problem. If the discrepancy cannot be resolved the Senior Supply Tech notifies the Program/Parts Manager. At EMTOC, each section is counted approximately twice a year because it is larger than the other facilities. The BMF and STS facilities are smaller and they are able to count their entire facility each cycle count.

Surplus/Disposal

- The sales and disposal of light-duty Fleet vehicles (cars and trucks) primarily occurs at the Seven Locks facility, but the other facilities coordinate to bring the items to this facility. The Asset Manager and the Section Chief for Equipment Management decide which vehicles will be auctioned. The vehicles are sent to the Seven Locks facility where the Shop Superintendent strips the vehicles of all County equipment and markings before sending them to be auctioned by Colonial Auctions, which is the third party who sells County Fleet vehicles through live auctions. The Program Specialist schedules a time for Colonial Auctions to pick up the vehicles for auction. Once the vehicles are sold at auction, the proceeds, minus the seller's premium, are sent to the Fleet Accountant along with a bill of sale.
- For vehicles that have been wrecked and are considered total losses, the vehicles are first stripped of all County equipment and markings. Once this is completed, a Fleet Program Specialist sends information about the vehicles to CorVel, which is the County's self-insurance administrator. The Fleet Program Specialist also contacts We-Rek, which is a salvage company, to arrange for the vehicle to be picked up. CorVel and We-Rek determine together determine the value of the vehicle. At the time the vehicle is picked up, We-Rek provides a check to the Fleet Program Specialist. The Fleet Program Specialist mails the original check to CorVel and forwards a copy of the check to the Fleet Accountant.
- Heavy vehicles (including busses, dump trucks, etc.) and other equipment (such as salt spreaders, snowplows, etc.) are sold through the GovDeals website. When heavy equipment or other equipment is taken out of service, a Fleet Program Specialist receives a notification, inspection sheets, and photographs. The asset is listed on the GovDeals website for a duration of five business days. At the close of the auction, the Fleet Program Specialist will receive a notification of the winning bidder. The winning bidder can pay using wire transfer, money order, or cash. When payment is received, the Fleet Senior Financial Specialist confirms the receipt of the funds. If payment is made using cash or a

money order, the payment is deposited at the bank. When the winning bidder pays for the purchase, he/she receives a bill of sale from the Fleet Accountant, along with the title (if the purchase is a vehicle). The asset is then released to the winning bidder by a Fleet Management representative upon notification from the Fleet Accountant.

- The County also disposes obsolete parts, which are defined as parts that have not been utilized for three years, and that have no operational value to the fleet. Fleet disposes of obsolete parts once per year, prior to the performance of the annual full physical inventory count. The obsolete parts are identified and removed from their locations. The obsolete parts are palletized and photographed, and are placed under a designated location code within Faster. The parts are then transported from each location to the EMTOC location where they are aggregated and sent to Colonial for auction. Following the auction, Colonial provides a check to the Fleet Accountant for the proceeds of the sale. The Fleet Accountant deposits the check at the bank and provides the details to the County Finance department's Accounts Receivable group so that the proceeds from the auction can be applied against the amount of bad debt incurred from the disposal of obsolete parts.

Scope and Methodology

The internal control review was initiated in March 2017 and fieldwork procedures were completed through July 2017. The review focused on the policies, procedures, and controls in place at the time of this review with samples selected from the most recent 12 months at the time of sample selection (7/1/2016 through 6/30/2017). The five in scope process areas identified were:

1. Ordering: Purchase orders, contracts, parts orders, p-card use
2. Receiving: Packing slips, sign-offs, authorization levels
3. Warehouse Management: Receiving area, cores, part organization
4. Inventory: Cycle counts, annual inventory count
5. Surplus/disposal: Colonial Auction, GovDeals, salvage, obsolete parts

In order to achieve the objectives of this program assessment, SC&H performed the following procedures:

Process Walkthrough and Risk and Control Matrix Creation

SC&H obtained and reviewed current Fleet asset management process documentation from department contacts at the outset of this review. Documentation specific to the five process areas identified to be in scope was reviewed in detail prior to meeting with Shop Superintendents. SC&H then met with Fleet management and applicable personnel (e.g.: Supply Techs, Program Specialists, Fleet Accounting personnel, etc.) of the four Fleet locations selected for review. These discussions focused on ordering and receiving procedures, warehouse management, asset inventories, and surplus and disposal. Additionally, SC&H met with the Fleet Leadership personnel, who operate out of the main Fleet location (EMTOC) to gain an understanding of program oversight. Based on the discussions and review of the procedural documentation, SC&H created a risk and control matrix summarizing the risks, controls, and gaps identified within each of the reviewed processes.

Audit Program Creation

Based on the information obtained and the resulting understanding of the processes, risks, and related controls, SC&H developed an audit program to achieve control and gap-based objectives. The program included detailed steps to address each objective with the goal of assessing risk

and identifying opportunities for improvement, where necessary. The following audit objectives were established based on the program assessment's planning procedures:

- A. Review the policies and procedures related to Fleet asset management for completeness and accuracy.
- B. Ensure that controls related to the management of Fleet inventory assets are properly segregated.
- C. Assess the live and web-based auction sales of County assets for appropriateness, completeness and accuracy.
- D. Assess the salvage sales of County assets for appropriateness, completeness, and accuracy.
- E. Ensure that stock and non-stock parts are received into inventory accurately and completely.
- F. Review physical security at each Fleet location to ensure that Fleet inventory assets are properly safeguarded.
- G. Verify that periodic asset inventory counts are independently performed and in accordance with Fleet policies and procedures.
- H. Review Faster user access to ensure that access is appropriately limited to current employees with a legitimate business need.

Transactional Testing

SC&H selected samples for detailed transactional testing. These selections and associated testing included:

- Colonial auction testing: From a population of 130 auctioned assets throughout the audit period, a sample of 25 assets was selected. For each asset selected, the auction log, the corresponding payment, and the bank deposit slip was obtained. The documentation was reviewed to ensure that for each asset, the correct amount was paid to the County, and that the correct amount was deposited to the bank.
- GovDeals auction testing: From a population of 72 assets auctioned through GovDeals throughout the audit period, a sample of 30 assets was selected. For each asset selected, the item information and listing, the bill of sale, evidence of the payment that was received, and the corresponding bank deposit slip was obtained. The documentation was reviewed to ensure that for each asset, the correct amount was paid to the County, and that the correct amount was deposited to the bank.
- CorVel salvage testing: From a population of 43 salvaged assets throughout the audit period, a sample of 10 assets was selected. For each asset selected, a memorandum containing the amount and stock number, a check, condition report, and the bid log was obtained. The documentation was reviewed to ensure that for each asset, the correct amount was paid by the salvage vendor.
- Parts receipts testing: The population of Stock and Non-stock parts received into Faster from December 1, 2016 through May 31, 2017 was obtained. The population consisted of 58,759 stock parts receipts and 6,957 Non-stock parts receipts. A sample of 20 Stock parts receipts and 20 Non-stock parts receipts was selected for testing, for a total sample size of 40 parts receipts. For each parts receipt sample selected for testing, the receiving information from Faster and the corresponding invoice was obtained. The documentation was reviewed to ensure that for each part received, the part numbers/descriptions, the

parts quantities, and the price per the invoice agreed to the information that was recorded during the receiving of the parts into Faster.

GovDeals Auction Sales

As part of the internal control review, it was noted that there was previously an attempted misappropriation of County assets whereby a Fleet employee identified gaps within the GovDeals auction process related specifically to Fleet assets sold through GovDeals auctions that were not paid for or picked up by winning bidders. A lack of properly defined roles within the GovDeals auction process, along with inconsistent communication, allowed the uncollected assets to remain segregated from other Fleet assets, but not tracked and monitored to ensure their proper disposition. The attempted misappropriation was ultimately discovered, prevented, and resolved before the assets were removed from County property. Through inquiry with DGS and Fleet personnel, it was determined that the GovDeals auction process was revised and augmented with additional controls and increased documentation of the status of the assets sold through GovDeals auctions. Subsequent transactional testing of Fleet assets sold through the GovDeals auctions validated the appropriateness, accuracy and completeness of the asset sales selected for testing.

Findings and Recommendations

Based on the testing performed, SC&H identified 23 findings related to the Fleet asset management operations. Findings, associated risks, and recommendations are detailed below.

GENERAL					
Ref #	Location	Observation	Risk	Recommendation	Management Response and Action Plan (including anticipated remediation date)
1	All	<p>Current procedure documents are not available for all Fleet asset management process.</p> <p>The Fleet department has a Parts Processing manual provided by Faster (dated March 28, 2008), but no current Fleet-specific documents related to the internal procedures for ordering, receiving, inventorying, etc. for parts or tools.</p>	Undocumented processes can result in inconsistencies across Fleet facilities, bypassing procedural controls, and an overall reduction in efficiency.	Develop and distribute comprehensive procedure documents for all relevant Fleet asset management processes. Additionally, establish a documented, periodic process to review and update procedure documents to ensure they remain current and accurate.	Comprehensive procedures exist in the form of the fleet management system, FASTER, manual and will be made available to all system users. The system and manual, which is the procedures document, will be reviewed annually to ensure control consistencies exist across fleet management operations. In addition, a SOP draft was developed in FY17 and will be finalized and implemented in January 2018.
ORDERING					
Ref #	Location	Observation	Risk	Recommendation	Management Response and Action Plan (including anticipated remediation date)
2	EMTOC, BMF, STS	Parts Supervisors have the ability to supersede the Faster Daily Order Report and increase/decrease parts quantities, add/remove parts, etc., without subsequent review and approval.	Inappropriate changes to the system-generated order report could result in the wrong quantities or parts being ordered. This could adversely impact on-hand inventories and potentially increase the amount of time needed to complete vehicle repairs.	<p>Implement and document a process to review all instances where deviations from the Faster Daily Order Report are reviewed and approved prior to the order being placed.</p> <p>If a system control cannot force approval prior to placing an order, then a reconciliation should be implemented where orders are compared to approved deviations from the Faster Daily Order Report.</p>	The Senior Supply Techs (Parts Supervisors) have this authority. The Seniors review the automatic orders and adjust for weather and operational needs. Fleet will develop and implement a control report, to include sign-off, into the process that will be reviewed monthly by Parts Management. The process addition will start November 2017.
3	EMTOC, BMF	There is not a process in place to generate and review tool ordering reports on a periodic basis to identify potential misappropriation or misuse.	A lack of reporting, analysis, and management review can result in the failure to identify instances in which tools are being ordered too frequently due to misuse and/or misappropriation.	Implement and document a process to perform a periodic review of all tool orders. Management's analysis of tool ordering should focus on frequently ordered tools and users who frequently request tool orders, to identify potential misappropriation or misuse of County-owned tools.	Fleet is working with our IT on an electronic tool request form for all tool requests no matter what the value. This request will be sent to the MLS supervisor who will either approve or deny the request. We will use the latest information (Report), to include trends, from this new site to perform semi-annual audits. The report will be completed by November 2017.

4	EMTOC	Shop Superintendent are authorized to order tools up to \$500. There is a process in place for them to fill out a tool request form if a tool is over \$500. There is not a control in place to review, approve, and retain completed tool request forms, or to reconcile tool purchases against completed forms.	Without a formal process to review, approve, and retain tool request forms, and to reconcile the completed forms to tool purchases, Shop Superintendents could make unauthorized tool purchases without detection.	Implement and document a process to ensure that all tool orders in excess of \$500 are reviewed and approved prior to the tool orders being placed. Additionally, ensure that all tool purchases in excess of \$500 are reconciled back to the approved tool request forms.	See additional information above. A report will be created by the vendors to identify all purchases for cross-referencing. The process will include referencing and reviewing by the Chief of Maintenance to include; what was ordered, who ordered and who authorized the order. The report and process will be implemented in November 2017.
5	STS	Per inquiry, the Supply Tech noted that he uses the p-card of the Supervisor. The Supply Tech will place parts orders with vendors using the Supervisor's stored card details. The Supply Tech is not an authorized user of this p-card.	Unauthorized use of the p-card would likely be a violation of the terms of the user agreement Unauthorized p-card use could result in inappropriate and/or unapproved purchases	Enforce existing p-card policies that prohibit purchases made using p-cards by anyone other than the authorized cardholder. Identified instances of p-card policy violations should be subject to discipline, to include revocation of issued p-cards.	A current process was changed and implemented in August 2017. This new process provides Fleet the controls necessary and creates checks and balances to include a signature line that will be signed by the senior supply technician before the order is placed. In addition, all parts staff will attend purchase card training by January 2018.

RECEIVING					
Ref #	Location	Observation	Risk	Recommendation	Management Response and Action Plan (including anticipated remediation date)
6	EMTOC, BMF, STS	There is not a process in place to validate invoice pricing against contract or quoted pricing to assure that the agreed-upon parts prices were included on the invoice.	Failure to validate invoice pricing against contracted or quoted pricing prior to approving invoices for payment could result in overpayment for ordered parts.	Implement and document a process to validate invoice pricing against contract or quoted pricing on a consistent basis. Receiving personnel should reconcile invoice pricing to contract or quoted pricing at the time the invoices are received, and evidence of accurate pricing should be included as supporting documentation for subsequent invoice reviews and approvals.	A new process is on-going with admin staff reviewing billing documents to insure proper pricing. The contract pricing visibility for doing a review at the time of receiving is being developed and implemented moving forward. Contracts will be in place in full for full visibility by December 2017
7	STS	There is a lack of segregation within the STS facilities that results in the Senior Supply Tech being responsible for ordering parts, receiving parts, updating the quantities in Faster, and reviewing/approving the invoice.	A lack of proper segregation could result in the misappropriation of County assets.	Ensure that the ordering, receiving, Faster quantity updates, and invoice review and approval are properly segregated. Supply Techs should not have responsibility for multiple steps throughout the process.	STS will have improved processes, to include segregation of duties, once all the new full-time staff are in place, expected by January 2018. A short-term solution would be the addition of temp staff which would need contracting approval and would increase costs.

ISSUANCES					
Ref #	Location	Observation	Risk	Recommendation	Management Response and Action Plan (including anticipated remediation date)
8	All	Receipts are not issued to technicians and signed when parts are issued to them.	If technicians are not issued signed receipts when they are issued parts, there is the potential for discrepancies to be disputed due to the lack of documentation.	Implement and document a process to provide signed receipts to technicians when they are issued parts. Receipts should include evidence of both the issuer and the receiver acknowledging the parts and quantities being issued.	The technician retrieves his parts from the parts department, completes the work and returns the ticket (WO) to the service desk for final processing. At this time, the Crew Chief scrutinizes the work order for accuracy and makes any adjustments necessary. During this process, fleet will identify parts that should or should not be on the work order. This control process insures Work Orders are not closed without review and that a chain of custody process is implemented.
9	All	There is not a process in place to track the return of parts that were replaced that contained "cores" for which a deposit is refunded or credited upon the return of the core to the vendor. Under the current process, the boxes in which core parts are issued include stickers that identify that the core parts need to be returned by the Mechanics, but these are not tracked and reconciled to ensure that all cores are returned.	If there is not a process in place to ensure that all used cores are returned by the technicians to the parts rooms, and then to the vendor, the County loses the amount of the deposit that was initially charged when the new part was ordered.	Implement and document a process to ensure that all parts that were replaced that contained "cores" are returned for deposit or vendor credit. The process should ensure that Mechanics and other Maintenance personnel are aware that the parts issued to their work orders contain cores. Additionally, all cores should be reconciled prior to vendor pickup to assure that all cores have been returned for refund or credit.	There is a new process in place for non-valued cores which include batteries. This process began in February of this year. They are documented and signed off by the vendor and parts department member. Fleet will create a new process to flag a core related items with values attached. A tag board/receptacle will be created and addressed by the Crew Chief at the end of each shift to have control of this process. It will insure the old core is brought back and tagged properly for exchange with the vendor. The new process will be implemented in November 2017.
INVENTORY					
Ref #	Location	Observation	Risk	Recommendation	Management Response and Action Plan (including anticipated remediation date)
10	STS	The inventory for the tools at the STS location has not been performed in eight years. Recently, the location began the process of attempting to inventory the tools. The Shop Superintendent made a list of the tools they currently have. This was not referenced to a tools inventory from the past.	A lack of properly documented periodic tool inventories could result in the misappropriation of County-owned tools. Additionally, over or under-stating asset inventories could result in inaccurate financial information.	Ensure that comprehensive tool inventories are performed and documented at each location on a periodic basis.	Tool inventories are to be done twice a year (October and March). There are SOPs in place to insure proper processing (1003 and 1701) to include inventory results. Fleet will pursue an additional automated tool cabinet to be installed at STS which includes an automated sign out and sign in function. FY18 funds availability and order timeline will dictate implementation date.

11	BMF	There is not a documented process in place to investigate and resolve discrepancies/variances in the count results for the mobile repair truck inventory that is performed on an annual basis.	Failure to properly investigate and resolve inventory discrepancies could result in the misappropriation of County assets.	Ensure that all variances resulting from periodic mobile repair truck inventories are investigated and resolved on a consistent basis.	A new parts policy (SOP) will be created and implemented in November 2017. Any discrepancies found during inventory will be turned over to the Depot Crew Chief and the HES Superintendent to insure proper controls are in place. The shop superintendent and depot crew chief will control the parts transfer to the trucks and address all discrepancies for accountability.
12	Seven Locks	There are some larger light fleet maintenance-related County tools that remain in place for Contractor use. The County's contract with the vendor requires that the vendor "acknowledge receipt in writing of assets received from the County and their condition..." Fleet has not retained evidence that the vendor provided such an acknowledgement back to the County.	Without the vendor's documented acknowledgement of the assets that they received from the County – along with the value of each asset – there is a risk that the County would not be able to recover the value of the assets from the vendor if the assets are broken or misappropriated.	Ensure that proper documentation evidencing the vendor's acknowledgment of the assets they have received, along with an accurate inventory of each of the assets and their respective values. Additionally, assure that the physical inventory of these assets is updated on a periodic basis.	The current listing is accurate and the vendor is responsible for all discrepancies at the end of their contract. The current contract term ends December 2017, at which time an asset physical inventory will be conducted and assets will be transferred from the current contractor to the new contract awardee. During the first day of the Contract, the vendor reviews the tool list and verifies its accuracy and confirms the reception of said tools. The contractor inspects all the tools on the list and signs off receiving them. The contract language states any asset broken or missing will be replaced by the contractor at the end of the contract. The contractor owns the tools and is responsible for replacement. The county will file all documents related to this asset transfer in the official contract file and ensure that all missing or damaged tools are replaced.
13	All	There is no process to reconcile the inventory in each location's virtual Obsolete storeroom to the items that were delivered from the other Fleet locations. The only reconciliation is from the Receiving documents to the parts that were delivered, but not the Obsolete storeroom.	Without reconciling the parts that were delivered to the parts that were added to each location's virtual Obsolete storeroom in Faster, it is possible that parts could be added to the storeroom but not physically delivered to EMTOC for disposal. It is also possible that parts could be	Implement and document a process to reconcile all obsolete items delivered to EMTOC for disposal to the sending location's virtual Obsolete storeroom in Faster prior to disposal. The reconciliation should be a three-way match between the obsolete items sent from each location to the EMTOC, the packing slip accompanying the items, and each	All obsolete parts will be transferred by the corresponding Senior Supply Tech electronically and confirmed thru a checklist and physical count by separate personnel. Parts Staff will insure all parties are involved and agree on the corresponding list. This three-way (triangle) process is a confirmation control and will be implemented in November 2017.

			delivered to EMTOC for disposal, but not properly added to the Obsolete storeroom.	location's virtual Obsolete storeroom in Faster. Discrepancies should be investigated and resolved prior to transferring possession of the obsolete items to the auction vendor.	
SURPLUSING AND DISPOSAL					
Ref #	Location	Observation	Risk	Recommendation	Management Response and Action Plan (including anticipated remediation date)
14	Seven Locks	When a vehicle is selected to go to auction, the operator receives a notification and comes to the site to return the old vehicle and get a new one. However, there is no signed documentation that evidences that the operator returned the old vehicle.	Without a receipt that evidences that the outgoing vehicle was returned, there is a lack of proper accountability if the vehicle were to be misappropriated.	Implement and document a process to provide signed receipts to all County personnel who return vehicles for disposition to evidence their return of the vehicle. The receipts should include the signatures or initials of both the delivering and the receiving personnel, with each side obtaining a copy of the receipt as evidence of the handoff.	In August 2017 Fleet initiated the review of its current documentation process and added a signed receipt line for the County personnel turning in a vehicle for disposition. Sign out sheets will reflect the old vehicle being turned in along with the keys for control of the dead-lined vehicles.
15	All	County personnel and contractors have the ability to bid on County-owned assets through live or on-line auctions. The Colonial live auction requires the bidder to have a dealer's license. The GovDeals online auction site does not require bidders to have a dealer's license.	The primary risk is that County employees who are allowed to bid on surplus property sales - particularly Fleet employees - could be in a position to know the history of the vehicles being auctioned, including recent problems, repairs or upgrades - that could impact the value of the vehicle. This information, while not confidential, is not readily available to the public and could be seen as giving the County employees inside information from which they could personally benefit. Additionally, without this prohibition, County employees could be incentivized to make unnecessary repairs or parts replacements to vehicles that they know are about to go to auction, although no specific analysis was conducted on this issue.	Consider implementing and documenting a policy to prohibit County employees (and their families) from bidding on County-owned assets at either live or web-based auctions. This policy would prevent the perception that County employees are using inside information – gained through their official capacity within the County – for personal gain. This recommendation is consistent with policies implemented by other states and jurisdictions, such as Virginia (Code of Virginia § 8.01-498), North Carolina (G.S. 14-234.1), and the District of Columbia (§ 2-354.09(b)(2)). This recommendation is also consistent with Maryland State Ethics Opinion No. 81-24, which recommends a similar policy, and references section 3-107 of the State's Ethics Law that "prohibits the use or disclosure of nonpublic information acquired in an individual's official position	This recommendation will require additional County-level analysis given its policy implications. Until a County-level analysis is completed, Fleet does not plan to take further action on the recommendation.

				for his own economic benefit or that of another.” Further, this recommendation is consistent with the GSA’s regulation that “A GSA employee, or a spouse or minor child of a GSA employee, or their agents, may not bid on federal personal property.”	
16	All	<p>One of 10 salvage sales selected for testing, one instance was identified where the bid price amount was \$100 higher than the amount of the check received, with no documentation supporting the variance.</p> <p>In the instance identified, the discrepancy was undetected at the time the transaction was completed, and could not be subsequently explained, beyond the Fleet Accountant hypothesizing that the salvage vendor could have disputed the bid price upon inspection of the vehicle, and CorVel’s subsequent adjustment of the bid price was undocumented. The Fleet Accountant provided documentation from CorVel that confirmed the discrepancy, but could not explain it.</p>	Improper reconciliation of the amount received for salvage sales to the bid price amount could result in the loss of revenue.	Ensure that payments from all salvage sales are reconciled to the corresponding vehicle’s bid price to validate that the correct amount is remitted by the salvage vendor. Any discrepancies should be investigated and resolved prior to transferring possession of the vehicle to the salvage vendor.	7 Locks (AES) is provided the same documentation, via email, that is sent to the Accountant, which is a “title release” request, that contains 1) bid number of the vehicle, 2) the deposit amount, 3) Property Damage Appraiser (PDA) report (which contains the actual listing of bid amounts and particularly the winning bid amount), and 4) the memo request. Currently, 7Locks (AES) doesn’t see any of these and by receiving this email, they should then be able to compare the check(s) received against the bid amount prior to releasing the vehicle off the lot. The contractor as of September 2017 has agreed to the new email process and will be implemented when the next auction occurs. An existing SOP will be updated, to include reconciliation and signed by the Director of DGS and Finance.
VEHICLE REPLACEMENT AND MAINTENANCE					
Ref #	Location	Observation	Risk	Recommendation	Management Response and Action Plan (including anticipated remediation date)
17	Seven Locks	Once the vehicles are accepted and sent off to Centerra to prep the vehicles, the Shop Superintendent or Program Specialist perform a final walkthrough. There is no sign-off in place to evidence that contractors returned the	Failure to properly evidence the chain of custody of County-owned assets could result in the lack of adequate accountability if an asset were to be misappropriated.	Implement and document a process to provide signed receipts to contractor personnel who return vehicles that have been prepared to be placed into service. The receipts should include the signatures or initials of both the delivering and the receiving personnel, with each side	Fleet updated the existing checklist in August 2017 to include a signature line to track the handoff from the contractor to Fleet Management Services once the vehicle has been prepped and is ready for service. This control will track all vehicles and was implemented in September 2017. In addition, fleet will be updating an existing

		vehicles back to the Shop Superintendent or Program Specialist.		obtaining a copy of the receipt as evidence of the handoff.	SOP to include this process with a SOP completion date of November 2017.
18	Fleet Accounting	Per discussion, it was noted that there can be a delay in adding or retiring vehicles in Oracle. Only one period can be open at a time - if a prior period is open, there is a delay until the period in which the vehicles are added or retired is opened.	A delay in entering the addition or retirement of County vehicles in Oracle increases the risk that a vehicle is inadvertently omitted. Vehicles should be added or retired from the Oracle inventory timely.	Ensure that all vehicles are added or retired from the Oracle inventory timely. Note: Internal Audit acknowledges that while the risk is with Fleet, the issue may be with how Oracle is structured/managed by Finance.	This is an issue created by the Fixed Asset Module of the County's Oracle system E-Business Suite system, which is a function overseen and handled by the Department of Finance. The Fixed Asset module, as with the other financial modules, does not allow more than one period to be opened at a time. This is an Oracle issue that Fleet cannot control or change. However, there is a manual reconciliation process that occurs when data is verified and entered from the FASTER system into Oracle.
19	All	There is not currently a process to identify vehicles that are not coming in for scheduled preventive maintenance on a defined, periodic basis and subsequently enforcing compliance with maintenance requirements. Per discussion, there is a report in FASTER that identifies vehicles that have not come in for scheduled maintenance in a year, but this report is not being reviewed and used as the basis for enforcement of maintenance requirements.	The lack of proper preventive maintenance decreases vehicle dependability and increases the likelihood of subsequent repairs.	Consider implementing and documenting a policy and process to enforce County-wide compliance with scheduled preventive maintenance. Enforcement steps could include escalating correspondence to Department Management or limiting the availability of vehicle refueling until the vehicle has been brought in for service, as examples.	We currently notify Fleet Coordinators of delinquent PMs regarding their departments/divisions vehicles. Fleet will develop and implement a policy by November 2017, which will elevate all overdue lists per established thresholds (a PM over due 30 days) up the chain of command to include the DGS Director for action.

PHYSICAL SECURITY

Ref #	Location	Observation	Risk	Recommendation	Management Response and Action Plan (including anticipated remediation date)
20	STS	Access to the parts storage area is not adequately restricted to parts personnel. Per discussion, it was noted that when parts personnel are not available, technicians will enter the parts room to retrieve parts. Additionally, at times the only parts staff available are temporary personnel.	Allowing non-parts personnel to have access to the parts storage area could result in the misappropriation of County assets.	Limit physical access to parts storage areas at each location to supply personnel. Mechanics should not have access into the parts areas, or be allowed to obtain parts from the supply areas.	Fleet will request in the FY'18 budget to create a counter, with owners' approval, in the STS parts room to separate the parts room and the shop thus keeping the mechanics out of the parts room.

21	STS	There are no security cameras that monitor and record activity within the shop floor or parts room areas.	A lack of video monitoring could result in the misappropriation of County assets.	Assess the need for additional security monitoring equipment at each location to ensure that all activity can be appropriately captured and recorded.	Fleet will request in the FY'18 budget to install cameras to monitor the parts room at STS.
FASTER USER ACCESS					
Ref #	Location	Observation	Risk	Recommendation	Management Response and Action Plan (including anticipated remediation date)
22	Fleet IT	Fifty-five of 215 employees with active individual Faster user accounts were no longer employed by the County.	While the Active Directory for separated employees has been deactivated, the active employee user accounts can still be placed onto work orders by current employees. As a result, there could be a loss of an accurate work order activity history.	Consider a system control within Faster that prevents the user accounts of separated employees from being selected and added to work orders. If a system control is not available, then Fleet IT should produce a report periodically that identifies the user IDs of separated personnel and identifies instances in which those user IDs were associated with work orders from within the period reviewed. Instances where the user IDs of separated employees were assigned to subsequent work orders should be investigated and resolved.	<p>Employee ID's of former and terminated employees cannot be removed from Faster as this will impact historical data in the database.</p> <p>Here's our process: --On the shop floor, only the Crew Chiefs can open and close work orders. Crew Chiefs review all entries (labor, parts etc.) in the work order before it is closed. All errors are resolved at that point. Work order reports are in place to review labor hours spent by mechanics performing repairs. This check has helped in preventing\eliminating errors in work order entries.</p> <p>Periodic user permission review process is in place which should check wrong access granted to users. We also have created reports to review user permissions.</p> <p>A "Phantom shop" will be created in the system where separated employee profiles will be moved as a historical archive that cannot be accessed.</p>
23	Fleet IT	Supply clerks have the ability to close work orders and technicians have the ability to update parts quantities without a legitimate business need. Details were provided to Fleet IT.	Inappropriate user access could result in unauthorized transactions and/or the misappropriation of County assets.	Ensure that all Faster users have only the system access for which they have a legitimate business need. Faster access should be reviewed by Fleet IT on a defined periodic basis to ensure continued appropriateness.	<p>Faster permissions work on two levels</p> <ol style="list-style-type: none"> 1. Application 2. Database Tables <p>Users may show as having permissions to perform certain functions, but further permissions need to be granted to the user on the database tables which is granted separately. User is usually matched with an</p>

					<p>existing user profile that performs the same role.</p> <p>In the examples provided to Fleet IT, Technicians that seem to have permissions to update parts quantities do not have UPDATE permissions on the Parts Inventory table in the database. This is an additional level of control. We will review existing user permissions to ensure the appropriate level of access is maintained.</p>
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Comments and MCIA Evaluation

We provided the DGS with a draft of this report for review and comment on November 2, 2017, and DGS responded with comments on November 16, 2017. The response received has been incorporated in the report at Appendix A. The DGS concurred with the recommendations in the report and noted that it had already developed an action plan to address the issues in the report; further noting that many of the corrective actions had already been implemented or would be implemented shortly. The DGS noted one recommendation that would require broader County attention; specifically, the recommendation that the County consider implementing and documenting a policy to prohibit County employees (and their families) from bidding on County-owned assets at either live or web-based auctions.

MCIA reviewed the DGS response to the report, and determined that no changes to the report's findings or recommendations were warranted.

Appendix A – Department of General Services Response



DEPARTMENT OF GENERAL SERVICES

Isiah Leggett
County Executive

David Dise
Director

MEMORANDUM

November 16, 2017

To: William Broglie, Internal Audit Manager
Office of Internal Audit

From: David E. Dise, Director ⁿ
Department of General Services

Subject: Department of General Services Formal Comments on the Internal Control
Review of Fleet Asset Management Operations

The Department of General Services (DGS) is committed to serving the operational service needs of all County departments and as part of that mission, seeks to review and improve our internal processes to ensure transparency, accountability and availability of management controls. In March 2017, the department contacted the Office of Internal Audit (OIA), requesting a review of the DGS Division of Fleet Management Services (DFMS) operations, with specific attention to ordering, receiving, inventory counts, and the surplus and disposal of Fleet assets, vehicle replacement and maintenance, and the physical security of County assets.

DGS staff worked collaboratively with SC&H, Inc. throughout its 5-month investigation to identify risks and pinpoint opportunities for improvement. The audit produced findings that will add value to our processes and improve overall management of county assets. Fleet Management Services developed and communicated with OIA an aggressive action plan to remove gaps identified by the audit. Many of the tasks are already accomplished with twelve targeted for completion by the end of 2017. The action plan is domiciled on a collaborative tool for ongoing, timely updates to ensure task completion and to allow for transparency for DFMS leadership and county internal audit oversight.

Regarding one specific finding in the audit; the County's current practice for the disposal of surplus assets does not prohibit county personnel and contractors or their families from bidding through live or on-line auctions. The audit recommends that the department implement and document a standard operating policy to prohibit all County employees and their families

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from bidding on County-owned assets at either live or web-based auctions to prevent the perception the employees are using inside information gained from their positions for personal gain. Discussion of this point included input from the Ethics Commission and the Office of the County Attorney and involved some differing views of the subject. Because of the broad implications of this subject and its resolution, the department believes an enterprise-wide review of disposal practices and an analysis of the implications and ability to enforce such a prohibition for employees, family members and domestic partners is warranted. With limited means to track family relationships, such practice has limited ability to reduce perceived risks. As such, until such County-wide policy is promulgated, the department does not intend to unilaterally impose this restriction and believes the risks for abuse are minimal.

In conclusion, the audit was an overall success in its findings that will improve operations and asset oversight. The Audit team at SC&H was professional, collaborative and took an active positive approach. We look forward to the opportunity to continue delivering great service to County departments supported by Fleet Management Services.